

AR40

*Joe*



## Financial Highlights

	1971	1970	1969	1968	1967
Revenues	\$43,733,645	40,842,639	37,398,583	33,166,412	28,961,351
Income before taxes	\$ 4,496,571	4,311,775	4,119,208	3,525,233	3,105,838
Pretax profit margin	10.3%	10.6%	11.0%	10.6%	10.7%
Net income	\$ 2,253,571	2,134,014	1,968,389	1,552,653	1,523,682
Earnings per share	\$1.13	1.07	.98	.78	.76
Stockholders' investment	\$10,602,076	8,334,755	7,700,741	5,732,352	4,179,699



We are pleased to report that in 1971 Globe Security Systems attained the highest revenues, net income and earnings per share in its 58-year history, despite the slower-than-expected recovery of the nation's economy and the federal government's freeze on prices.

Total revenues for 1971 increased to \$43,733,645 from \$40,842,639 in 1970. Net income improved to \$2,253,571 in 1971 from \$2,134,014. Earnings per share rose to \$1.13 in 1971 from \$1.07 in the 1970 period.

Financially, Globe's position remains strong. Our debt-equity ratio (long term debt to stockholders' investment and long term debt) was a very healthy .03 at the end of 1971, despite an increase in long term debt for acquisitions. Stockholders' investment increased by 27% to \$10,602,076 at the end of 1971, from \$8,334,755 at the close of 1970.

One of Globe's strong points is its ability to outperform other major companies in its field in terms of profitability. Globe's pretax profit margin was 10.3% for 1971, the fifth consecutive year it has been above 10%.

Our growth pattern for 1971 was positively effected by both our internal growth and acquisition programs.

Fidelity Detective Bureau, a uniformed guard company in Baltimore, was acquired in May of 1971. Interstate Service Corporation and an affiliate, Mutual Laboratories, headquartered in Chicago, Illinois, were acquired in November. Another Interstate Service affiliate, Inter-State Detective Agency, officially joined the company December 31, 1971. These acquisitions were for cash and notes, and are

included in our 1971 results from the actual date of acquisition.

It is of particular note that the addition of Interstate Service Corporation, a uniformed guard and investigative service company, provides Globe with a major operation in the mid-western section of the country. Interstate Service and its affiliates are licensed to operate in 11 midwestern states.

The greatest portion of Globe's growth in the past year was achieved through internal growth. Globe Security Systems offers a wide range of security services and equipment to retail, commercial, industrial, institutional and residential customers.

Globe's continuing growth prompted the transfer of our executive headquarters to a new location in Philadelphia last year. The new headquarters at 2503 Lombard Street has three times the space of our former location.

The management team of Globe was strengthened last year. In June, M. Bruce Oxman, Globe's Executive Vice President, and a Globe employee for 17 years, was elected to the Board of Directors.

In September, Edward A. Utsch joined the company as Controller and Chief Financial Officer. He brings to Globe 12 years of experience with an international public accounting firm. Utsch subsequently was elected Vice President — Finance of Globe Security.

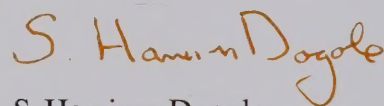
Also adding to the expertise of the corporate roster was the election of Nathan T. Glaser and Harry K. Grigg as Globe Vice Presidents. Glaser, President of our Merit Protective Service subsidiary, and Grigg, President of our Interstate Security Services subsidiary, combine more than 54 years of experience in the uniformed guard and security services field.

Globe has continued to strengthen its national sales effort, and last year appointed a new Director of Sales, with more than 20 years of sales experience, to direct that program. The new sales executive, Jack Ebner, is responsible for a program aimed at securing national account customers, as well as for sales training programs.

We are also continuing our acquisition program, selectively screening potential acquisition candidates, both in this country and abroad.

Globe Security Systems, in the truest sense, is its men and women — more than 10,000 of them in the United States, Canada, England and Scotland. They are the product we sell and are, indeed, responsible for our success. To them, and to the stockholders who have exhibited interest and confidence in our company, we are grateful.

Cordially,



S. Harrison Dogole  
President  
and Chief Executive

March 20, 1972



**Globe Security Systems, Inc. and Subsidiaries**  
**Consolidated Balance Sheets**

Assets	December 31	
	1971	1970
<b>Current Assets:</b>		
Cash .....	\$ 452,428	\$ 508,732
Short-term investments, at cost, which approximates market .....	400,000	—
Accounts receivable, less reserves of \$218,476 in 1971 and \$246,789 in 1970 .....	8,491,790	7,378,206
Receivable from affiliate .....	2,961,169	2,030,397
Prepaid expenses, etc. ....	1,060,586	872,983
Total current assets .....	<u>13,365,973</u>	<u>10,790,318</u>
<b>Land, buildings and equipment, at cost:</b>		
Land .....	39,709	49,709
Buildings .....	70,600	182,054
Equipment .....	1,050,857	858,726
	<u>1,161,166</u>	<u>1,090,489</u>
Less — Accumulated depreciation .....	606,123	631,081
	<u>555,043</u>	<u>459,408</u>
Excess of cost over related net assets of businesses acquired .....	850,453	321,628
Other assets .....	27,061	29,798
	<u>\$14,798,530</u>	<u>\$11,601,152</u>
<b>Liabilities and Stockholders' Investment</b>		
<b>Current Liabilities:</b>		
Contract payable .....	\$ 547,970	\$ —
Accounts payable and accrued expenses .....	1,814,627	1,654,115
Accrued taxes on income .....	1,454,947	1,371,202
Current installments of long-term debt .....	57,304	112,169
Total current liabilities .....	<u>3,874,848</u>	<u>3,137,486</u>
Long-term debt, less current installments .....	<u>321,606</u>	<u>128,911</u>
<b>Stockholders' Investment:</b>		
Preferred stock — \$1 par value; authorized 3,000,000 shares .....	—	—
Common stock — \$1 par value; authorized 10,000,000 shares, outstanding 2,001,000 shares in 1971 and 2,000,000 shares in 1970 .....	2,001,000	2,000,000
Capital surplus .....	12,750	—
Retained earnings .....	8,588,326	6,334,755
	<u>10,602,076</u>	<u>8,334,755</u>
	<u>\$14,798,530</u>	<u>\$11,601,152</u>

The accompanying notes are an integral part of these statements.

## Consolidated Statements of Income

	Years Ended December 31	
	1971	1970
<b>Revenue from services</b> .....	\$43,733,645	\$40,842,639
Expenses:		
Payroll and other operating expenses .....	35,207,131	32,617,983
Selling, general and administrative expenses .....	4,237,361	4,057,101
	<u>39,444,492</u>	<u>36,675,084</u>
Income from operations .....	4,289,153	4,167,555
Other income:		
Interest income, net .....	174,882	122,125
Other, net .....	<u>32,536</u>	<u>22,095</u>
Income before taxes .....	4,496,571	4,311,775
Taxes on income .....	<u>2,243,000</u>	<u>2,177,761</u>
<b>Net income</b> .....	<u>\$ 2,253,571</u>	<u>\$ 2,134,014</u>
<b>Earnings per share</b> (Based on average shares outstanding — 2,000,308 in 1971 and 2,000,000 in 1970) .....	<u>\$1.13</u>	<u>\$1.07</u>

## Consolidated Statements of Capital Surplus and Retained Earnings

	Years Ended December 31	
	1971	1970
<b>Capital Surplus:</b>		
Balance at beginning of year .....	\$ —	\$ —
Proceeds received over par value of 1,000 shares of common stock issued to employees under stock option plan .....	<u>12,750</u>	<u>—</u>
Balance at end of year .....	<u>\$ 12,750</u>	<u>\$ —</u>
<b>Retained Earnings:</b>		
Balance at beginning of year .....	\$ 6,334,755	\$ 5,700,741
Net income .....	2,253,571	2,134,014
Dividend on common stock .....	<u>—</u>	<u>(1,500,000)</u>
Balance at end of year .....	<u>\$ 8,588,326</u>	<u>\$ 6,334,755</u>

The accompanying notes are an integral part of these statements.



# Consolidated Statements of Changes in Financial Position

	Years Ended December 31	
	1971	1970
<b>Sources of Working Capital:</b>		
Net income .....	\$2,253,571	\$2,134,014
Depreciation .....	99,362	90,207
Working capital provided from operations .....	2,352,933	2,224,221
Working capital of businesses acquired .....	774,786	—
Property dispositions .....	70,806	14,674
Sale of stock under stock option plan .....	13,750	—
Other .....	2,736	3,991
	<u>3,215,011</u>	<u>2,242,886</u>
<b>Uses of Working Capital:</b>		
Acquisition of businesses, net of \$250,000 long-term debt to former owner ...	1,144,000	—
Property additions (excluding \$90,389 of equipment of businesses acquired in 1971) .....	175,414	165,658
Reduction in long-term debt .....	57,304	52,663
Additional costs relating to businesses acquired .....	—	83,482
Dividend on common stock .....	—	1,500,000
	<u>1,376,718</u>	<u>1,801,803</u>
Increase in Working Capital .....	<u>\$1,838,293</u>	<u>\$ 441,083</u>
<b>Changes in Working Capital:</b>		
Increase (decrease) in current assets —		
Cash .....	\$ (56,304)	\$ 65,653
Short-term investments .....	400,000	—
Accounts receivable .....	1,113,584	861,774
Receivable from affiliate .....	930,772	(563,858)
Prepaid expenses, etc. ....	187,603	89,504
	<u>2,575,655</u>	<u>453,073</u>
Increase (decrease) in current liabilities —		
Contract payable .....	547,970	—
Accounts payable and accrued expenses .....	160,512	16,865
Accrued taxes on income .....	83,745	(30,000)
Current installments of long-term debt .....	(54,865)	25,125
	<u>737,362</u>	<u>11,990</u>
Increase in Working Capital .....	<u>\$1,838,293</u>	<u>\$ 441,083</u>

### Acquisitions

During 1970, the Company issued 1,132,561 shares of its common stock to its affiliate, Walter Kidde & Company, Inc., in exchange for a number of businesses in a transaction accounted for as a pooling of interests; accordingly, the 1970 financial statements reflect the operations of these businesses for the full year.

During 1971, the Company acquired Fidelity Detective Bureau, Inc. as of May 1, 1971; Interstate Service Corporation and its affiliate Mutual Laboratories, Inc. as of November 1, 1971; and Inter-State Detective Agency, Inc. (also an affiliate of Interstate Service Corporation) as of December 31, 1971. The acquired companies provide guard and investigative services. These transactions have been accounted for as purchases, and accordingly the operations of the companies are included in the 1971 financial statements from the dates of acquisition. The companies were acquired for cash and notes (\$547,970 included in current liabilities and \$250,000 included in long-term debt) aggregating \$1,394,000.

The following unaudited pro forma consolidated summary of income reflects the operations of the Company assuming such businesses had been acquired on January 1, 1970:

	1971	1970
Revenue from		
services .....	\$48,170,000	\$46,240,000
Net income .....	\$ 2,359,000	\$ 2,306,000
Earnings per share ..	\$1.18	\$1.15

### Transactions with Affiliate

As of December 31, 1971, Kidde owned 70% of the Company's outstanding common stock. Under the provisions of certain of Kidde's long-term debt

agreements, Kidde is required to maintain control of a majority of the Company's voting stock.

Certain services are provided to the Company by Kidde under a service contract effective January 1, 1970 between the Company and Kidde which is terminable at the option of either party upon 90 days notice. Pursuant to the contract, Kidde provides the Company with general corporate services, including management, financial, legal and other administrative staff functions. Charges to the Company under the service contract are \$6,000 per month, but the amount of such charges is subject to review and adjustment from time to time.

The receivable from affiliate bears interest at approximately 1% over the prime rate and includes a promissory note of \$2,800,000 due November 1973. The receivable is classified as a current asset since Kidde has agreed to advance funds to the Company upon request up to the unpaid principal of the note. Interest income from affiliate was \$184,231 in 1971 and \$85,286 in 1970.

The dividend on common stock of \$1,500,000 in 1970 took the form of cancellation of receivable from affiliate.

### Long-Term Debt

As of December 31, 1971, long-term debt consisted of:

Contract payable to former owner in connection with acquisition of business, due in three equal annual installments beginning in January, 1973, interest at ½ of 1% over the prime rate .....	\$250,000
4% Promissory Note due in 1972 .....	40,000
Non-interest bearing Promissory Note due in semi-annual installments through 1974 .	44,506
6% Promissory Note due in varying monthly installments through 1984 .....	44,404
	<u>378,910</u>
Less current installments .....	57,304
	<u>\$321,606</u>

Kidde is party to certain long-term debt agreements which impose certain restrictions on Kidde and its domestic subsidiaries. Under the provisions of these agreements, the Company and its subsidiaries are prohibited from making additional borrowings other than from Kidde.



### Stock Option Plan

As of December 31, 1971, 99,000 shares of unissued common stock were reserved to cover shares which may be issued to officers and key employees under the Company's stock option plan. Under the Plan, both qualified and non-qualified options may be granted at a price which is no less than the market price at date of grant. Qualified options will expire not more than five years from date of grant and non-qualified options will expire not more than 10 years from date of grant. During 1971, options to purchase 2,800 shares were granted, 3,000 were cancelled and 1,000 were exercised at an option price of \$13.75. At December 31, 1971, options to purchase 25,500 shares were outstanding (22,700 at \$13.75; 2,000 at \$17.00; and 800 at \$24.00). Of these, options for 11,150 shares are exercisable.

### Depreciation and Amortization

Depreciation charged to expenses amounted to \$99,362 in 1971 and \$90,207 in 1970, computed principally on the straight-line method. The excess of cost over related net assets of businesses acquired prior to November 1, 1970 is not being amortized, because in the opinion of the Company, it has continuing value. The excess of cost over related net assets of businesses acquired subsequent to October 31, 1970 is being amortized over 40 years, in accordance with Accounting Principles Board Opinion No. 17.

### Taxes on Income

Taxes on income include deferred taxes, principally attributable to certain subsidiaries' use of the "cash basis" for tax purposes. Such deferred taxes amounted to \$13,000 in 1971 and \$122,860 in 1970.

To the Stockholders and the Board of Directors  
of Globe Security Systems, Inc.:

We have examined the consolidated balance sheets of Globe Security Systems, Inc. (a Delaware corporation) and subsidiaries as of December 31, 1971 and 1970, and the related consolidated statements of income, capital surplus, retained earnings, and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated financial statements present fairly the financial position of Globe Security Systems, Inc. and subsidiaries as of December 31, 1971 and 1970, and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied during the periods.

Arthur Andersen & Co.

Philadelphia, Pa.  
February 23, 1972

### **Board of Directors**

Fred R. Sullivan, Chairman

Fred E. Braemer

S. Harrison Dogole

John F. Kidde

Brig. Gen. James A. McDivitt, USAF

M. Bruce Oxman

### **Officers**

S. Harrison Dogole, President and Chief Executive Officer

M. Bruce Oxman, Executive Vice President

John B. F. Dillon, Vice President

Edgar R. Fettingner, Vice President

Nathan T. Glaser, Vice President

Harry K. Grigg, Vice President

Edward A. Utsch, Vice President-Finance

John J. Hensel, Treasurer

Hugh H. Shull Jr., Secretary

### **Executive Offices**

2503 Lombard Street

Philadelphia, Pennsylvania 19146

### **Corporate Offices**

9 Brighton Road

Clifton, New Jersey 07012

### **Transfer Agent**

Bankers Trust Company

485 Lexington Avenue

New York, New York 10017

### **Registrar**

Morgan Guaranty Trust Company

23 Wall Street

New York, New York 10015



### Executive Offices

Associated Security Agency, Inc.  
Palo Alto, California

E. J. Burke Security Systems, Inc.  
Philadelphia, Pennsylvania

Fidelity Detective Bureau, Inc.  
Baltimore, Maryland

57 Corporation  
Philadelphia, Pennsylvania

Globe Protection, Inc.  
New York, New York

Industrial Security Service, Inc.  
North Brunswick, New Jersey

Inter-State Bureau of Investigation, Inc.  
Baltimore, Maryland

Inter-State Detective Agency, Inc.  
Chicago, Illinois

Interstate Security Services, Inc.  
and Affiliates  
Newark, New Jersey

Interstate Security Services, Ltd.  
London, England

Interstate Service Corporation  
Chicago, Illinois

Merchants Patrol, Inc.  
Charlotte, North Carolina

Merit Protective Service, Inc.  
and Affiliates  
New York, New York

Mutual Laboratories, Inc.  
Chicago, Illinois

Plant Security, Inc.  
Philadelphia, Pennsylvania

Reliable Sentry Services, Ltd.  
Toronto, Ontario, Canada

Southern Detectives, Inc.  
Atlanta, Georgia

Southern Security Devices, Inc.  
Atlanta, Georgia

Southern Security Services, Inc.  
Atlanta, Georgia

J. H. Sparks, Inc.  
Philadelphia, Pennsylvania

